



**MCI Telecommunications  
Corporation**

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

September 26, 1996

Mr. William F. Caton, Acting Secretary  
Federal Communications Commission  
1919 M Street, NW Room 222  
Washington, DC 20554

Re: Ex Parte CC Docket 96-45 - Federal-State  
Joint Board On Universal Service

Dear Mr. Caton:

On September 25, Jonathan Sallet, Chris Frentrup, Mary Sisak and I met with Gina Keeney and Mindy Ginsburg. The purpose of the meeting was to review MCI's position as stated in the comments in this proceeding. The attached document was used during the meeting and lists the topics discussed.

Due to the late hour of the meeting, two copies of this Notice are being submitted to the Secretary of the FCC in accordance with Section 1.1206(a)(1) of the Commission's rules on the following business day.

Sincerely,

Kimberly M. Kirby

Attachment

cc: Gina Keeney  
Mindy Ginsburg

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List A B C D E

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# Blueprint for Universal Service

Jonathan Sallet

Chief Policy Counsel

MCI Communications Corporation

September 25, 1996

# Preservation and Advancement of Universal Service

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- ◆ Replace Existing High Cost Fund
- ◆ Use Hatfield To Explicitly Size Subsidy
- ◆ Adopt Unitary Fund
- ◆ Require All Carriers To Pay on a Competitively-Neutral Basis
- ◆ Preserve Service to Low Income Users
- ◆ Connect Schools, Libraries, Health Care Providers

# Replace Existing High Cost Fund

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- ◆ The 1996 Act mandates explicit -- not implicit -- subsidies
- ◆ Must be independent of access charges
- ◆ Embedded cost is inconsistent with Interconnection Order:
  - “We first set forth generally, based on the current record, a cost-based pricing methodology based on forward-looking economic costs, which we conclude is the approach for setting prices that best furthers the goals of the 1996 Act”*

# Hatfield Sizes Explicit Subsidy

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- ◆ Hatfield determines cost per line in each density zone
- ◆ Hatfield includes capital costs for all network components and includes expenses such as joint and common costs
- ◆ Hatfield enables model user to specify the rate that must be supported

# Hatfield Model “Refined” Not “Redesigned”

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- ◆ Version 2.2.2 implements TELRIC to determine the explicit amount of subsidy
- ◆ Hatfield 2.2.2 is not a “redesigned” model but rather a “refined” version of earlier models
  - Best matches TELRIC approach of the Interconnection Order
  - Uses existing switching locations, off-the-shelf technology, and current engineering practice
  - Assumptions are explicit and can be changed
  - Cost information derived from on-the-record sources

# Hatfield is Superior to Other Models

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- ◆ BCM2 was an attempt by the LECs to “catch up” with the innovations contained in the Hatfield Model
- ◆ Hatfield 2.2.2 goes well beyond the improvements introduced by the ILECs in BCM2
- ◆ BCM2 and PacBell models are much more closed, proprietary models than HM2.2.2

# A Unitary Fund Gives States a Key Role

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- ◆ The FCC generates the entire amount of the Unitary Fund and distributes it to the states
  - Amount based on the difference between the nationwide average of basic universal service (\$20.00) and the TELRIC based on Hatfield 2.2.2
- ◆ States determine the distribution among eligible carriers based on the subsidy needed on a per line basis



# All Carriers Must Pay

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- ◆ All carriers providing telecommunications services must pay into the fund
- ◆ Payments based on total net revenues
- ◆ FCC may exempt certain carriers

# Preserve Basic Universal Service For Low-Income Users

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- ◆ MCI's Universal Service Fund preserves the Life-Line and Link-Up programs
  - MCI's Universal Service proposal maintains a subsidy that supports basic universal service for low-income users

# Connect Schools and Libraries to the Internet

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- ◆ Provide Internet Access At or Below Cost
- ◆ Provide Discounts to Low-Income and Rural Schools
- ◆ Target Discounts for High-Bandwidth Services
- ◆ Determine the Total Connection Cost
- ◆ Require Schools to Have a State-Approved Plan
- ◆ Promote Competition Among Service Providers

# SUPPORT PEOPLE, NOT MONOPOLIES

To make sure that telephone service is affordable for all Americans, universal service funding was established many years ago.

## **Where does all the money go?**

Right now the cost of providing universal service is between four and six billion dollars. But, to provide universal service, the monopoly Regional Bell Operating Companies collect \$14 billion from people who make interstate telephone calls and they collect even more from in-state long distance.

And you pay too much for telephone service.

Where does the excess money go? Right. To the profits of local telephone companies.

The new Federal Telecommunications Act can change all that as federal and state officials work to reform universal service. They can change all that by adopting these principles of universal service.

## **Principles of universal service**

First, encourage competition. Vibrant competition is the first step to ensuring that prices are low and that service is broadly available.

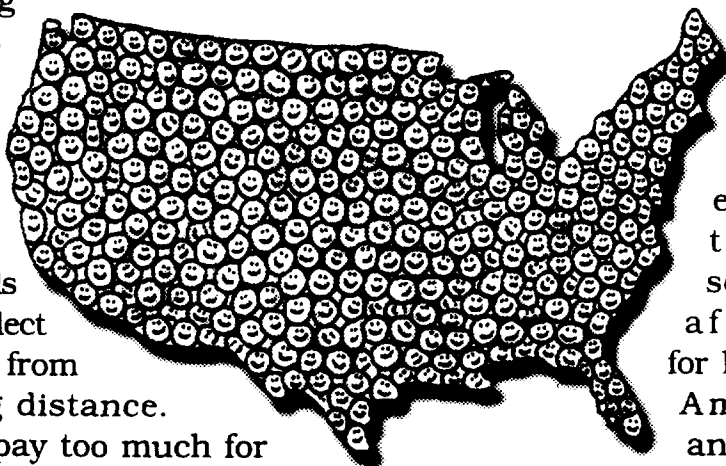
Then establish a separate fund, outside the control of the monopoly telephone companies, that is the amount needed to ensure access — no more, but no less.

Third, use the fund to ensure that telephone service is affordable for low income Americans and people who need it in rural America. Use it also to provide our schools, public hospitals and libraries with the technology they need.

Finally, reject the idea that fixing universal service requires you to pay more.

Then the people will be served, not the monopolies.

**Competition. Just Make it Work.**



## Matrix of Universal Service Issues

	Individuals	High-Cost Places	Institutions
Eligible Services	<b>MCI</b> Maintain Lifeline and Linkup	<b>MCI</b> -- Single party service to the first point of switching; local usage; -- touch tone; -- white pages listing -- access to 911, E911, operator services, directory assistance and relay service	<b>MCI</b> -- Data grade (Internet) service with incentives for broader bandwidth
Eligible Participants	<b>MCI</b> Low-Income People	<b>MCI</b> All/High-Cost Residents	<b>MCI</b> Schools, Libraries with state approved plans
Calculation of Subsidy	<b>MCI</b> Lifeline and Linkup would be maintained as targeted subsidy programs for low-income consumers	<b>MCI</b> Difference between the TELRIC (Hatfield) cost and the current nationwide average rate for basic service.	<b>MCI</b> TELRIC with larger discounts for (I) low income areas (II) greater bandwidth
Competitively Neutral	<b>MCI</b> 1. True Competition is the first step. 2. All subsidies are explicit and in fund. 3. The subsidy is recovered from all telecommunications carriers based on their relative revenues, net of payments for the services of other telecommunications carriers 4. Neutral Administrator	<b>MCI</b> Same as "individuals" and: A "carrier of last resort" auction would be held for any area that is or becomes unserved	<b>MCI</b> Same as "individuals" and: Requirement of competitive bidding
Evolution	(e.g., Call Waiting)	(e.g., Call Waiting)	(e.g., ISDN)